



Paper on the Accountability Framework

Introduction

1. This paper details the Accountability Framework that governs the procedures for project approvals and management accountability adopted by the Board of Directors (BoD) of the Asian Infrastructure Investment Bank (AIIB or the Bank). The purpose of the Accountability Framework is to clearly demarcate the respective roles of the BoD and the President in respect of the financing operations of the Bank.
2. In particular, the Accountability Framework sets out to strengthen:
 - i) The role of the BoD in establishing the strategies and policies of the Bank.
 - ii) The role of the President in conducting the business of the Bank, including through the delegation of authority to approve projects to the President, with the exception of those categories of projects reserved for consideration by the BoD.
 - iii) The role of the BoD to hold the President accountable for the management of the Bank in line with the agreed policies and strategies of the Bank.
3. The aim of these proposals is to provide AIIB with a new model of governance in which a highly effective, strategic BoD directs and oversees the work of a highly efficient, accountable management, together creating a Bank that is 'lean, clean, and green' and able to serve its clients' needs effectively and efficiently.
4. The purpose of establishing this framework now is to enable a culture of accountability to be fostered from an early stage. The Accountability Framework is presented as a whole, in which each element relies on each other element, none takes precedence over the other, and the best results will be achieved by being implemented together. Inevitably, delay will mean a different culture develops and different processes on strategy, labor division and work flow are implemented, making eventual reform harder. The rules for the delegation of project approval will mean that the proportion of projects to be considered for approval by the President will increase very gradually over time, ensuring that the BoD can retain close control as the system matures.
5. All the powers of AIIB are vested in the Board of Governors, which is its ultimate authority. The BoD, elected by the Governors, is responsible for the direction of the general operations of AIIB, including setting the Bank's policies and strategy and for overseeing their implementation. Under the direction of the BoD, the President conducts the current business of AIIB. Specifically, the President is held responsible and accountable for the day-to-day effective and efficient operation of the Bank.

6. The clear demarcation of responsibility between the BoD and the President facilitates the execution of their respective duties in a focused and efficient manner. Article 26(iii) of the Articles of Agreement (AoA) expressly makes provision for the delegation of project approval authority to the President, with the timing and modalities to be determined by the BoD. The objective is to enhance efficiency and to make the President responsible and accountable for AIIB's operations, while at the same time giving clear responsibility for the Bank's overall strategic direction to the BoD.
7. As the Board of Governors, the BoD, and the President have or will shortly put in place the key documents necessary to ensure the Bank operates with high standards, the time is right to move to the next stage of developing the AIIB's governance model.

The Role of the Board of Directors - Policy and Strategy

8. The AoA recognizes that for AIIB to be an efficient and well governed organization, the roles and responsibilities of the BoD and of the President must be clearly delineated. Implementing the Accountability Framework will position the BoD to most effectively carry out its key functions of establishing the policies and approving the strategy of AIIB, and then holding the President, as the chief of staff who conducts the current business of the Bank, accountable for its implementation.
9. The Accountability Framework provides for greater engagement of the BoD on policy and strategy. Under the Framework, the BoD will have clear and direct accountability to Governors for the determination of AIIB's policies and strategy. The Bank's strategy thus needs to be articulated in sufficiently concrete terms to allow the BoD to monitor implementation and outcomes, and to engage on an iterative process of refining strategy over time in the light of experience.
10. During AIIB's first two years of operation, it has developed various tools through which the BoD shapes the Bank's strategy. Formally, the BoD drives strategy through sector strategies and the Business Plan and Budget (BPB). Informally, the BoD gives guidance to the President at forums such as the twice-yearly BoD Retreats, which allow more time and space for the BoD and the President to exchange views on the fundamental strategic decisions that need to be taken as AIIB develops.
11. Strategies are approved by the BoD and include objectives, approaches, activities, key principles and frameworks that will guide the work of AIIB, and a monitoring framework to track strategy implementation. Background data, economic analysis, and technical material related to a strategy are not at the level requiring BoD approval. When needed, they will be presented as a technical paper accompanying a strategy.
12. Under the Accountability Framework, the BoD will also have the opportunity to discuss major strategies, including sector strategies, as many times as necessary prior to approval. This, especially when combined with prior discussion of major strategies in the Board's Policy & Strategy Committee, ensures ample opportunity for the BoD to shape the content of such documents and identify the key elements which it would eventually approve.

13. The BoD-approved policies and strategies, combined with the President-approved Directives to implement these policies, provide mandatory instructions for conducting AIIB's business. Directives that are concerned with implementing a Policy or Strategy will typically be shared with the BoD one week before being issued by the President. The same process will apply when there are material amendments to such Directives. The adopted version of all Directives will continue to be shared with the BoD. Board members will be given general access to AIIB's intranet, which will enable Board members to view, among other things, Administrative Guidance which has been issued to staff.
14. The main instrument through which the BoD directs the President in the operationalization of strategies and policies is the annual Business Plan and Budget (BPB). It is the tool for aligning the activities and resources of AIIB with the agreed strategic directions. The monitoring indicators approved as part of the strategies will be included and tracked as an Annex to the BPB.
15. The BPB also includes quantitative and qualitative milestones to allow the BoD to monitor progress and hold the President accountable. This framework will allow Board members to assess, on a quarterly basis, AIIB's performance. The indicators approved in each sector strategy are the building blocks of the Bank's results framework, which will be fully developed by the time AIIB's first Corporate Strategy is approved.
16. The BPB also includes a multi-year outlook for the Bank. The three-year horizon will help anchor the discussion on AIIB's development, and thus allow for clarity in establishing the annual milestones. As AIIB develops, the specificity of the milestones will increase, driving greater accountability of the President. The multi-year outlook provides a framework for important strategic discussions on areas such as the business model and alignment of the investment program with the Bank's strategic priorities.
17. By 2021 AIIB will be operating under its first Corporate Strategy. This Strategy will outline a medium-term framework that integrates existing and future sectoral strategies, thematic priorities and core institutional principles, values and goals, and will also lay a Bank-wide foundation for the next phase of growth and for evaluating the results that AIIB aims to achieve. The future Corporate Strategy will build upon and elaborate the three-year horizon of the Business Plan that currently serves as strategic orientation in the interim. The Corporate Strategy will be paralleled by the Effectiveness Assessment of the Bank's operations and Learning Strategy that will set out a robust evaluative learning framework to inform Management and the BoD of good practices and lessons learned from and for programming.
18. AIIB's strategy will be implemented within a set of risk thresholds agreed by the BoD. The BoD approved the Risk Appetite Statement (RAS) in January 2018 and will be asked annually to approve the specific levels of top-down risk allocation. The RAS is an integral part of the new model of governance that the Bank is adopting. These steps are part of the process of building an appropriate risk-culture in the organization, which supports effective governance and accountability. The BoD will continue to play a pivotal role in shaping the development of a progressive, sound and accountable risk-culture in the Bank.

Delegation Principles and Project Approval Process

19. The AoA confer the power to delegate authority for project approvals to the President. The Board of Directors retains authority in these matters and may decide in future to amend or withdraw the authority that is delegated by these provisions. Under the Accountability Framework, the BoD will delegate to the President the authority to approve all projects, except those that are attributable to any of the following principled categories:

Category I – Precedent Setting:

- a) The first sovereign-backed project in a Member.
- b) The first non-sovereign-backed project in a Member.
- c) The first project in a sector¹ in each Member.
- d) The first projects using a previously unused financing instrument, e.g., if AIIB for the first time lends to a bank for on-lending or provides subordinated debt.
- e) The first project involving a particular co-financier in which AIIB proposes to apply one or several policies of such co-financier.

Category II – Significant Strategic and Policy Issues:

- f) A project in a non-regional Member.
- g) A project where a corresponding Sector Strategy has not yet been approved by the Board of Directors.
- h) A Project requiring a policy derogation, e.g., in terms of risk limits or procurement policy requirements.
- i) A project which directly implicates the Operational Policy on International Relations.

Category III – Risk Tolerances:

- j) A project that falls into one of the following categories:
 - a. The amount of AIIB's economic capital (ECap) utilized by the Bank's financing in a project is in excess of \$25 million.
 - b. The amount of AIIB's financing for a project is in excess of any one of the following amounts:
 - i. \$200 million in case of sovereign-backed financing or guarantees.

¹ A sector is defined by having a BoD approved Strategy (e.g. the Energy Sector). For example, this would mean that if the BoD approved a power transmission line in a country, then the next energy sector project, whether a transmission line or any other subsector covered by the Strategy, would be considered by the President, subject to other principled exceptions to delegation.

- ii. \$100 million in case of non-sovereign-backed financing or guarantees.
 - iii. \$35 million in case of equity investments.
 - c. At the time of the first review, to be started at the three-year anniversary of the implementation of the Accountability Framework, the amounts for b(i) and b(ii) of paragraph 19(j) shall be adjusted to \$300 million and \$150 million, respectively, unless otherwise determined by the Board of Directors in that review.
- 20. The objective of setting financing thresholds is to assure that: (1) the riskier transactions are to be considered by the BoD, as such transactions would expose the Bank to significant financial risks; and (2) large transactions are to be considered by the BoD, as they represent a large resource commitment by AIIB even though such transactions would not expose the Bank to significant financial risks. The specific limits proposed under (j) of paragraph 19 are derived from Management's analysis of the ECap relative to target credit ratings. An ECap limit of \$25 million translates to a notional limit of about \$300 million for a BB rated borrower (the average portfolio target rating) for sovereign-backed projects and about \$150 million for a BB- rated borrower (the average portfolio target rating) for non-sovereign backed projects. For projects below the average target rating, the ECap limit of \$25 million would become a binding constraint and would imply lower notional limits, with the riskier credits seeing a notional limit as low as one third of the target levels. At the same time, any large financing, defined as being larger than \$200 million (sovereign), \$100 million (non-sovereign) or \$35 million (equity), would be considered by the BoD even if the financing's ECap consumption would be less than \$25 million.
- 21. The Accountability Framework will ensure that the delegation will be progressive, allowing the number of projects that will be considered for approval by the President to increase gradually over time.
- 22. Timely and appropriate information sharing is critical to the effective operation of the Accountability Framework. The BoD will have visibility of essential project information throughout the entire project cycle.
- 23. A Director may ask that a project be considered and decided upon by the BoD at any time from the first time a project is included in the pipeline until a date which is fourteen (14) calendar days after Management provides the BoD with a final Project Summary Document (PSD). The specific closing deadline in each case will be communicated to the BoD when the final PSD is provided. Such final PSD could take the form of either (i) a revised PSD reflecting changes to the project or AIIB's financing since the original PSD was provided to the Board or (ii) the original PSD accompanied by a confirmation that there have been no such changes. The final PSD will be provided at the latest after the project has passed Appraisal/Final Review at the IC. The final PSD will cover the major aspects and risks of a project, ensuring the BoD has comprehensive and sufficient information on which to base its decision.

24. Furthermore, the President may determine, at any stage of a project, that such project be referred to the Board of Directors for consideration. Such determination shall weigh the significance of any potential integrity and reputational risks of a project (including unusual project risks, for example on environmental and social aspects of the project), and will take into account non-financial risks as related to the Risk Appetite Statement.
25. If the project is to be approved by the BoD, the Project Document will be submitted to the BoD at least 14 days ahead of Board consideration, as required by the Rules of Procedure of the BoD. For those projects approved by the President, the final Project Document will be shared with the BoD promptly after the President's approval and before any information about the decision is made public.
26. If a project which has been approved by the President undergoes changes, and those changes mean the project then falls under one of the principled categories set out in paragraph 19 above, then such changes will be submitted for approval by the BoD. Consistent with paragraph 24 above, the President may also determine that a proposed change to a project that does not engage the principles, nevertheless be referred to BoD for approval. All other changes will be approved by the President.
27. The Accountability Framework will be subject to a mid-term review after 18 months and a thorough review after the first three years' implementation, and periodic reviews thereafter. Management will prepare a clear set of metrics to measure the success of the Accountability Framework. The review will include, but not be limited to, the delegation principles (including call-in rights), modalities of delegation and information sharing processes. It will also include an in-depth review, undertaken by the Compliance, Effectiveness and Integrity Unit (CEIU), of a sample of projects subjected to delegated approval to ensure that the decisions were robust and aligned with the BoD-approved policies and strategies. Under Article 26 of the Articles of Agreement, a decision on delegation requires "a majority representing not less than three-fourths of the total voting power of the members". Once the proposed delegation decision is taken, the same majority would be required to withdraw it or to modify the terms on which it has been provided.
28. Prior to the initial review, the President will report on an annual basis on the experience of operating under the Accountability Framework. This report will document the impact of delegation of authority to the President with regard to AIIB's operations as compared to the status quo, and also track the ability of the BoD and the President to introduce innovative and sustainable solutions through effective coordination and cooperation.

Holding the President to Account

29. The BoD has a duty to hold the President accountable, and Management, led by the President, has a duty to implement the BoD-approved policies and strategies. The Accountability Framework will further strengthen the tools available to the BoD to hold the President to account for performance of his functions.

BoD's tools for holding the President accountable

30. The primary tool for BoD to ensure that the President is operationalizing BoD approved policies and strategies is the BPB. As mentioned in paragraphs in 14-17, the BoD will have the opportunity on a quarterly basis to monitor and track the President's implementation through reports on the BPB.
31. BoD oversight of the investment program is conducted via a robust and transparent monitoring and reporting system. The President applies BoD approved policies and strategic priorities in selecting projects that enter the pipeline, and provides the BoD with regular updates on AIIB's program, including total investment volume (nominal and in economic capital terms), as well as important breakdowns by regions, countries, sectors and investment grade. Further information includes the breakdown of the financings by sovereign and non-sovereign and standalone versus co-financed. The President also reports to the BoD on how the financing program is supporting the thematic and sector priorities. The President and the BoD continue to discuss further sharpening of the strategic priorities and how best to report on these to the BoD.
32. Management has adopted an Administrative Guidance for a project prioritization and quality framework to guide selection and preparation of projects. It translates the high-level policies/strategies into the project level implementation and links to results monitoring and evaluation. The framework and its implementation will be periodically updated and shared with the BoD as more investment operation experiences are accumulated.
33. AIIB's first Corporate Strategy in 2020 will include the Bank's institution-wide results framework that brings together the different elements of results monitoring. Several elements of the results framework are already being developed and implemented as appropriate, while others will be developed over the next two years:
 - a) Each AIIB financed project already has clearly defined objectives and results monitoring indicators as part of the project results framework. Further guidance will be developed to determine the format and likely content of project level results frameworks, in particular for standalone projects. Also, project results monitoring indicators will have to include the relevant indicators from the respective sector strategy results indicators.
 - b) Each sector strategy will determine the project results (output/outcome) indicators that would be monitored in each AIIB-supported project in the respective sector/area. The monitoring indicators in the energy sector strategy approved by the BoD in April 2018 illustrate this approach. Tracking the Bank's results relative to these indicators will provide the data that feeds into the periodic review of each sector strategy. The Annual Business Plan will include an Annex with data on the aggregated results indicators included in sector strategies thus far approved.
 - c) The Business Plan already includes business indicators such as commitment volume and portfolio quality. Over time, Management will develop for the annual Business Plan a comprehensive set of business effectiveness and efficiency indicators measuring operational effectiveness, business volume, and organizational efficiency. In the future, such business effectiveness and

efficiency indicators will replace some of the current Business Plan Milestones, which were and are the appropriate focus to track actions during the initial build-up phase of AIIB.

34. The BoD will have a strong role in guiding the development of the institutional results framework along the lines discussed above. Engagements with the BoD will include the discussions of the 2019 and 2020 Business Plans, which will increasingly incorporate the above-mentioned elements, as well as the preparation of the Corporate Strategy. Additional BoD engagement specifically on the design and development of the institutional results framework will be scheduled as needed. CEIU will provide independent validation of results in AIIB's operations reported under the framework and thus plays an important role in developing and implementing the framework. The annual results reporting should be an input (alongside other inputs) to the President's review by the BoD.
35. The BoD can also further monitor the health of the overall portfolio through the detailed information provided in the Investment Operations Quarterly Monitoring Report (QMR), and the progress of individual projects through each Project Implementation Monitoring Report. The QMR has specifically been developed as part of the Accountability Framework, and will cover progress made and frankly report problems encountered in project implementation, as well as actions either taken by or facilitated by AIIB to address the problems.
36. As part of its oversight role, the performance review of the President is a critical tool for the BoD to hold him/her accountable. Done systematically and effectively, the accountability to the BoD will create positive incentives for the President to sharpen staff's accountability to him.
37. The President has established the CEIU that reports directly to the BoD. CEIU combines three functions traditionally carried out at other MDBs by different units. CEIU consolidates the integrity (fraud and corruption related to projects), project complaints and project evaluation functions under one roof. This allows for greater synergy between these functions, especially in deriving lessons learned, and supports the BoD in its supervisory role. To reinforce this synergy, the President has invited the Managing Director of CEIU to attend the Management Meeting and Executive Committee as an observer. This aims to ensure that CEIU is well informed of important decision-making, and also positions the Unit to play a constructive role in expeditiously raising concerns with Management for resolution. When issues cannot be resolved by Management, and without compromising the confidentiality of discussions and decisions within the Management and Executive Committees, CEIU has the ability to report them to the BoD. CEIU will also play a key role in the rigorous and independent evaluation of the performance of projects, thereby providing the BoD with an essential metric for supervising the project approval authority delegated to the President.

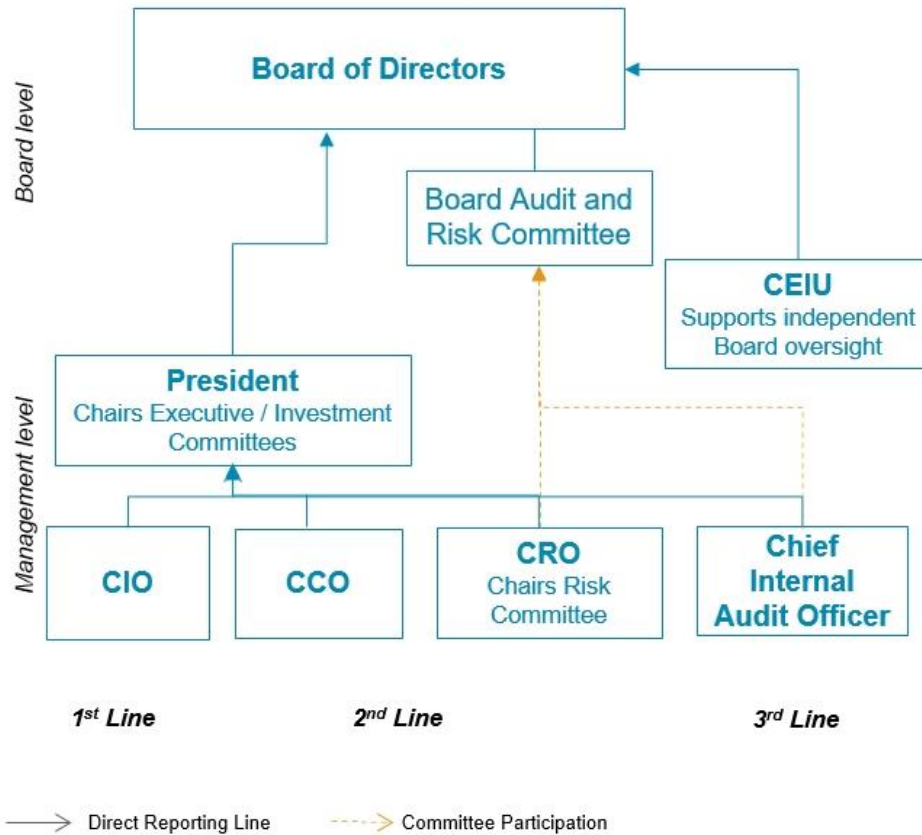
Internal governance: three lines of defense and the CEIU

38. Delegation of authority for project approval to the President requires that the BoD be assured that the governance structures are robust, and that accountability within

Management exists and has been tested. AIB's risk governance approach follows industry best practice with clearly delineated three lines of defense.

39. The first line of defense is Management control. This is realized through the rigorous process of screening and reviewing projects. Each project AIB reviews must pass through the Screening Committee, the Executive Committee and the Investment Committee (2-3 times), before it is submitted to the BoD or the President for approval.
40. The second line of defense separately established risk, control, and compliance oversight to ensure that risks are effectively managed while supporting the first line of defense business functions. In doing so, the second line implements and communicates common risk taxonomies, proper processes and controls, assessment methodologies, as well as standards and practices. With respect to AIB's operations, the Vice President for Policy and Strategy, as Chief Compliance Officer (CCO), ensures adherence and compliance with operational policies and is accountable to the President. The compliance role described here is a second-line-of defense function within management that is separate and distinct from the independent oversight role described above that reports directly to the BoD and is exercised by CEIU.
41. With respect to the Bank's financial and non-financial risks, the Risk Management Department assumes the second line of defense role. The governance for Risk Management in the Bank has been established, including direct reporting to the President. In addition, the CRO is a participant of the BoD Audit and Risk Committee which reviews the effectiveness and integrity of risk management. Furthermore, the BoD reviews and discusses the quarterly Risk Reporting Dashboard, allowing for regular tracking and early identification of key operational risks. There are a number of instances where projects have not been supported by the Investment Committee, at Concept Review, Appraisal, and Interim / Final Review, demonstrating that the first and second lines of defenses have been tested and are effective.
42. The third line of defense is exercised by the Bank's audit function, headed by the Chief Internal Audit Officer. The Internal Audit Office provides independent assurance over the effectiveness of governance, risk management and control in the first and second lines of defense.
43. In addition, the AIB benefits from the additional layer of independent reporting by the CEIU to the BoD, as outlined in paragraph 37.

Board / Management Committees Setup



44. Accountability is individuals taking ownership of, and responsibility for, decisions within the organization. Increasing levels of accountability for decisions leads to more rigor and care taken during the process. Put in another way, accountability brings with it an increased burden of responsibility (e.g. to review, in detail, the investment proposal).
45. The internal management structure, systems and processes that have been put in place by the President mean that accountability will be expanded to the Senior Management. Hence, this framework will also help embed a strong culture of accountability throughout the Bank, strengthening AIIB's risk culture as its employees develop a stronger sense of ownership for decisions. Establishing the Accountability Framework now will be crucial to shaping the right culture and systems within AIIB from an early stage.